

Tax Practitioner Guidelines for Computer-Prepared Returns

Introduction

The Franchise Tax Board (FTB) has established these guidelines for tax practitioners who use personal computers (or service bureaus) to computer-prepare their clients':

- Form 540, California Resident Income Tax Return;
- Form 540A, California Resident Income Tax Return;
- Form 540EZ, California Resident Income Tax Return For Single and Joint Filers With No Dependents;
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return; and/or
- Form 540X, Amended Individual Income Tax Return.

This publication also provides information and guidelines on how to file your clients' business entity returns (Forms 100, 100S, 541, 565 and 568), including how to file Schedule K-1s (100S, 541, 565 and 568). In addition, it includes information about FTB's e-file (Electronic Filing) Program.

If you manually prepare your clients' returns, you **must** use the official form as printed and distributed by the FTB.

By following these guidelines, you will help reduce delays in processing and get your clients' refunds to them faster.

As a tax practitioner you do not need approval by the FTB to computer prepare your clients' returns. However, make sure that the tax software or service bureau you use produces FTB-approved forms. Ask your software provider for a copy of its FTB approval letter for the form(s) in which you are interested.

To ensure that you receive software updates and other information necessary to produce FTB-approved forms, register with your software provider, as necessary, upon receiving the product.

The FTB has separate publications for tax practitioners who want to participate in FTB's e-file Program and/or who want to prepare their clients' Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., in a magnetic media format (CD, diskette, cartridge or magnetic tape).

If you have Internet access, you may download, view and print FTB Pub. 1345, e-file Handbook for State of California Individual Income Tax Returns, and FTB Pub. 1062, Guide for K-1 (565) Filing by CD, Diskette or Magnetic Media. The FTB's Internet address is <http://www.ftb.ca.gov>. If you do not have Internet access, call the e-file Help Desk at (916) 845-0353.

General Information About Scannable Forms 540 and 540A

(A graphic of these forms is shown on page 6.)

The FTB will use its Image Assisted Data Capture (IADC) system to process 1998 non-remit (refund or no amount due) Forms 540 and 540A and will use its new cashiering system (Modernization and Re-engineering of the Cashiering System (MARCS)) to process 1998 remit (balance due) Forms 540 and 540A. Returns are "scanned" to "lift" information from the return, rather than having the information entered by key data operators.

The computer-prepared Forms 540 and 540A you print **must** have the scannable graphic patch located in the center top margin of Side 1. The patch identifies Side 1 of a taxpayer's return as it enters the IADC and MARCS systems.

Forms 540 and 540A **must** have a scannable band area that **must** contain the taxpayer's tax data. On Form 540, the "scanband" directly follows the "Step 1 Name and Address" area. On Form 540A, the scanband is at the bottom of Side 1. The two-digit field numbers in the scanband area correspond to the line numbers in the conventional areas of Forms 540 and 540A. Even though the tax data will print in the scanband and the conventional area of the form, only the tax data in the scanband will be "lifted." Monetary amounts in the scanband **must** be whole dollars only without decimal points or other punctuation. The rest of the scannable form is exactly like the official form.

Exception: Line 12a will print as Line 12 in the scanband on scannable Form 540A.

See "1998 Tax Form Layout Changes" on page 3 for more information.

In addition to data capturing the tax practitioner's ID number (federal employer identification number (FEIN)) on electronically filed returns, the FTB data captures this number on all imaged returns.

What is Needed to Computer-Prepare Forms 540, 540A, 540NR, 540EZ and/or 540X

Tax practitioners may produce the above returns using:

- The software that produces FTB-approved forms;
- The personal computer hardware required by the software to produce FTB-approved forms (i.e., font cartridges, etc);
- The software user's manual that includes instructions for correctly producing FTB-approved forms; and
- The FTB-approved overlay, if needed. See the explanation of the correct use of overlays on page 3.

Please read your software provider's user manual to make sure you have the necessary hardware and printer fonts to correctly produce FTB-approved forms.

All printing must be:

- Laser or ink jet;
- Courier, standard OCR-A font or standard print font (no bold font);
- 10 pitch (pica spacing);
- Alpha characters must be in upper case;
- Original printed output (no corrections); and
- On one side of the paper (no duplexing).

Guidelines on How to Enter Taxpayer Entity Information on Computer-Prepared Forms 540, 540A, 540EZ, 540NR and/or 540X (Step 1 — Name and Address area)

Taxpayer entity information is arranged in fixed positions with defined field lengths. Each field is dedicated to hold specific information such as:

- Spouse name;
- Executor/guardian name;
- Apartment and apartment number (or letter); and
- Deceased date of taxpayer or taxpayer's spouse, if any.

It is critical that you enter the taxpayer entity information correctly. This will help the FTB to accurately process your clients' returns, and help ensure that your clients' refund checks are printed with the correct name(s) and address. Your clients' entity information should print like the examples shown under "Taxpayer Entity Information Examples" on page 2.

Two Asterisks (**) in the Entity

Two asterisks (**) in the taxpayer entity area indicate to the FTB that taxpayer information is **UNCHANGED** from last year. Print two asterisks **ONLY** if the taxpayer (and taxpayer's spouse, if any):

- Filed a California Form 540, 540A, 540EZ or 540NR return last year;
- Did **not** change the address from the one shown on last year's return;
- Has the same social security number (SSN) as last year;
- Has the same name (first, middle and last) as last year;
- Has the same filing status as last year; and
- Is not deceased.

Otherwise, **do not** print the asterisks.

Taxpayer Name and Address Entry Instructions

Use these instructions when you enter your clients' name and address information. It will help reduce FTB processing time and help ensure that your clients' refunds are mailed to the correct name(s) and address.

- Alpha characters must be in upper case.
- Use no punctuation or symbols. **Note:** If a fraction is part of the street address, enter a forward facing slash (/). **Note:** This is the **only** symbol that may be used in the taxpayer address area.
- Do not use commas or periods to separate information.

- **Never** space or use punctuation in the taxpayer's name control field. (The name control is the first four letters of the taxpayer's last name. The name control follows the taxpayer's SSN.)

Example: McPeak Enter: MCPE
O'Toole Enter: OTOO
De Martino Enter: DEMA
Lee Enter: LEE
Lee-Smith Enter: LEES

- Do not include titles or ranks such as: DR, MD, ENSIGN, SGT, etc.
- Use Roman numerals (alpha characters) for numeric suffixes.
- Never space within the name field(s) except for JR, SR, II, etc.
Example of first name: Jo Anne Enter as: JOANNE
Example of last name: Von Wodtke Enter as: VONWODTKE
Example of last name: Lee-Smith Enter as: LEESMITH
- The SSN must be eleven digits (includes "-"). Enter "000-00-0000" in the SSN field if an individual has applied for or does not have an SSN.
- Use the standard abbreviations listed to the right for the suffix of the street name.
- **Do not** enter apartment and apartment number/letter in the street address field. Enter them in the designated "apartment" and "apartment number" fields. These fields are on the same line as the street address field. **Note:** Enter APT, BLDG, SP, STE, RM, FL, NO and UN in the "apartment" field.
For correct placement of APT, NO, etc., see taxpayer entity information examples shown below for IMA REFUND or JACOB H HARLEY and CHRISTINE S BLAKE.

- **Do not** precede the apartment number with a pound sign (#).
- Additional address field is a supplemental field that may **only** be used for:
 - "In care of" name;
 - Additional address information.
- Military "APO" or "FPO" addresses:
 - Enter "APO" or "FPO" in the first three positions of the city field;
 - **Do not** enter the name of the city for "APO" and "FPO" addresses;
 - Enter the two-digit state code in the state field:

| City Field | State Code | ZIP Code Range |
|------------|------------|----------------|
| APO | AA | 34000-34099 |
| APO | AE | 09000-09899 |
| FPO | AP | 96200-96699 |
- In the state field, use the standard two-digit abbreviation for the state or United States possessions listed to the right.
- If the address is a foreign address, enter the country name beginning in the state field.
- ZIP Code may be ten digits (including "-").
- If after applying these guidelines the information exceeds the field length, truncate the information from the right.

Taxpayer Entity Information Examples:

| | | | | | |
|----------------------------------|-------------------------------------|-----------------------|---|--------------------------------|-------------------|
| 111-11-1111 JAMIE | MISS ** L MISSION | 98 | 111-11-1111 JACOB CHRISTINE | HARL ** H HARLEY S BLAKE | 222-22-2222 98 |
| 1234 STATE ST CROWN | CA 12345-6789 | | 9876 LONGNAME WY WALLACE | CA 12345-6789 | APT 1 |
| 111-11-1111 JORDAN MELISSA | TAXP ** Q TAXPAYER S TAXPAYER | 222-22-2222 98 | 111-11-1111 ERIK | SMIT T SMITH | 98 |
| 12345 SHORT ST ANYPLACE | CA 12345 | | HOMESTYLE NURSING HOME 3452 BUSY DR BORDERTOWN CA 12345 | | |
| 111-11-1111 IMA | REFU REFUND | 98 (DECD 12-10-98) | | | |
| 1234 BEAUTIFUL DR WELCOME | CA 54321-4334 | | AUSTIN JOSEPH NO 5 | | |

Note: If there is no spouse name, leave that line blank. If there is no additional address or executor/guardian name, leave that line blank.

Standard Abbreviations

| | | | |
|----------------|------|-----------------|-------|
| AIR FORCE BASE | AFB | PARKWAY | PKY |
| APARTMENT | APT | PLACE | PL |
| AVENUE | AV | POST OFFICE BOX | PO BX |
| BOULEVARD | BL | ROAD | RD |
| BUILDING | BLDG | ROOM | RM |
| CIRCLE | CIR | SAN | SN |
| COURT | CT | SOUTH * | S |
| DEPARTMENT | DEPT | SOUTHEAST * | SE |
| DRIVE | DR | SOUTHWEST * | SW |
| EAST * | E | SPACE | SP |
| FLOOR | FL | SQUARE | SQ |
| HIGHWAY | HWY | STREET | ST |
| LANE | LN | SUITE | STE |
| NORTH * | N | TERRACE | TER |
| NORTHEAST * | NE | UNIT | UN |
| NORTHWEST * | NW | WAY | WY |
| NUMBER OR # | NO | WEST * | W |

* ABBREVIATE ONLY WHEN USED AS A DIRECTION.

State and U.S. Possessions Abbreviations

| | | | |
|-----------------------------------|----|------------------|----|
| Alabama | AL | Montana | MT |
| Alaska | AK | Nebraska | NE |
| American Samoa | AS | Nevada | NV |
| Arizona | AZ | New Hampshire | NH |
| Arkansas | AR | New Jersey | NJ |
| California | CA | New Mexico | NM |
| Colorado | CO | New York | NY |
| Connecticut | CT | North Carolina | NC |
| Delaware | DE | North Dakota | ND |
| Dist Columbia | DC | Northern Mariana | |
| Federated States of Micronesia | FM | Islands | MP |
| Florida | FL | Ohio | OH |
| Georgia | GA | Oklahoma | OK |
| Guam | GU | Oregon | OR |
| Hawaii | HI | Palau | PW |
| Idaho | ID | Pennsylvania | PA |
| Illinois | IL | Puerto Rico | PR |
| Indiana | IN | Rhode Island | RI |
| Iowa | IA | South Carolina | SC |
| Kansas | KS | South Dakota | SD |
| Kentucky | KY | Tennessee | TN |
| Louisiana | LA | Texas | TX |
| Maine | ME | Utah | UT |
| Marshall Islands | MH | Vermont | VT |
| Maryland | MD | Virgin Islands | VI |
| Massachusetts | MA | Virginia | VA |
| Michigan | MI | Washington | WA |
| Minnesota | MN | West Virginia | WV |
| Mississippi | MS | Wisconsin | WI |
| Missouri | MO | Wyoming | WY |

Miscellaneous Information

“1998 Tax Form Layout Changes”

New registration marks (top and bottom margin) and pre-assigned document ID numbers that identify each form (bottom margin) have replaced last year's bar codes and dollar signs (\$). The constrained hand-print boxes remain on all official hand-print forms. Exception: The top margin registration mark is not required on scannable Forms 540 and 540A.

To help ensure accurate and timely processing, the document ID in the bottom margin must always print. The document ID (includes the form number, tax year, page number, source code and an assigned computerized tax processor ID). If you notice that the document ID does not print, please contact your software provider's technical support staff.

What are Keying Symbols?

Although the FTB now image processes most of the personal income tax forms that it receives, there are still some that require manual processing by key data operators. Therefore, keying symbols are still very important.

Keying symbols are shown on all computer-prepared returns, including the conventional parts of scannable forms. They will print to the left of specific tax data line numbers. These symbols guide FTB's key data operators to enter correct tax return information into FTB's automated files. These symbols reduce the time it takes to enter tax return information.

Exact placement, shape and size of keying symbols are shown in the example below. (The example below shows a 1996 Form 540NR. These same symbols are being used for all 1998 personal income tax returns.)

Before you give your clients' their return to file, please verify that these symbols are present. If the return requires manual processing, the symbols will help ensure the return is processed correctly. If the keying symbols are not present, please read your user's manual and make sure you have the minimum hardware and printer fonts necessary to print FTB-approved forms. **Note:** In most cases if you download the soft fonts before printing your clients' returns (most software products do this automatically), the keying symbols will print correctly. If you cannot determine why the keying symbols do not print correctly, contact your software provider's technical support staff.

| | |
|--|--------------------------|
| amount (\$25 max) ▶ 66 | 00 |
| (\$25 max) . . . ▶ 67 | 00 |
| total contributions ● 68 | |
| NO AMOUNT DUE. Mail your return to: SACRAMENTO CA 94240-0000 ■ 69 | |
| a check or money order payable to your social security number and Form 540NR and mail to: SACRAMENTO CA 94267-0001 ■ 70 | |
| penalties | 71 |
| FTB 5805F is attached, check here <input type="checkbox"/> ■ 72 | |
| next year, check here ● 73 | <input type="checkbox"/> |

Dot Matrix Text Mode Forms

For filing purposes, the FTB does **not** accept ANY dot matrix text mode California tax forms and schedules because they do not contain the data entry symbols and other required graphics necessary for processing. The use of an overlay is required.

If your software provider's product does not offer the option to use an overlay, the following message will print on the return: **“DO NOT FILE THIS FORM.”** In this case, you must transfer all information to an official form.

Fiscal Year Filers

If any of your clients file on a fiscal year basis, make sure that the tax software you use accommodates their needs.

Not all tax software products support fiscal year filing. As a result, you may need to fill out some clients' tax forms manually.

Always remember to enter the fiscal year date in the appropriate place on the form. If you do not, the tax return will automatically be processed as a calendar year return. When this happens, your clients' returns most likely will appear to be delinquent in some way. As a result, your clients could receive a delinquent or late payment of tax penalty or an underpayment of estimated tax penalty and may be assessed interest.

If you are uncertain as to whether or not the tax software you use supports fiscal year filing, please contact your tax software's technical support staff.

Prior Year and Amended Returns

Do not use 1998 software to file a prior year return.

Amend personal income tax Forms 540, 540A, 540EZ and 540NR by completing Form 540X, Amended Individual Income Tax Return. **Note:** When amending Form 540NR you must also attach a revised Form 540NR to Form 540X.

Amend corporate income tax Forms 100 and 100S by completing Form 100X, Amended Corporation Franchise or Income Tax Return.

Federal Form 1040PC

The FTB accepts federal Form 1040PC as a federal tax return when one is required to be attached to the California return.

Form FTB 3595, Special Handling Required

If your clients' Form 540, 540A, 540EZ, 540NR or 541 includes any of the special circumstances listed below, check the appropriate item(s) and staple form FTB 3595 to the front of Side 1 in the upper-left hand corner.

- Underpayment of Estimated Tax by Farmers and Fishermen (FTB 5805F);
- Underpayment of Estimated Tax by Individuals and Fiduciaries (FTB 5805);
- Deceased taxpayer or spouse;
- Taxpayer out of country on original due date of return;
- Military Out of Country — Service in a Combat Zone;
- Disaster; and
- Form 540X filed in response to notice of proposed assessment.

Note: If your clients are required to attach special handling forms FTB 5805, Underpayment of Estimated Tax by Individuals and Fiduciaries or FTB 5805F, Underpayment of Estimated Tax by Farmers and Fishermen, staple the form(s) to the front of Side 1 in the upper-left hand corner.

The Correct Use of Overlays

If you use a dot matrix printer, your software provider's product may require the use of an overlay. If you must use an overlay to produce FTB-approved form(s), it is critical that you use the overlay correctly. Misuse may delay your clients' refund. Please use the following guidelines when you use an overlay:

- Make sure the glass on the photocopier you use is free from any obstructions. (e.g., smudges, smears and dust).
- Make sure the overlay you use is also free from any obstructions.
- Use the grid marks (small box(es) or other distinguishing symbol) to ensure correct placement of your clients' entity information and scan-band data. **Note:** The location of the grid marks may differ on each software provider's product.
- Upon completion, make sure that your clients' returns are clear and straight on the paper. If not, make another copy.

FTB Taxpayer Signature and Authentication Policy

The FTB's policy is to ensure proper authentication of the information provided to us by taxpayers. The level of authentication needed on specific documents depends on several factors, including how the FTB uses the information. To help you determine whether or not the FTB will accept photocopies or facsimiles of a taxpayer's signature(s), the FTB has categorized the level of signature authentication required into three groups. The category and its number (c1, c2, or c3) will print after the form number in the bottom margin on each form. The three categories are:

- | | |
|-----------------|---|
| Category 1 (c1) | Original authentication required; facsimiles acceptable only if original is subsequently provided. |
| Category 2 (c2) | Copy of signature is sufficient proof that original was signed; photocopy or facsimile is acceptable. |
| Category 3 (c3) | No authentication required. |

Where To Get Income Tax Forms

By Internet — If you have Internet access, you may download, view and print California income tax forms and publications. Our Internet address is: <http://www.ftb.ca.gov>.

Additional Credit Names, Codes, and Acronym Names

*PIT = Personal Income Tax

*B&C = Bank and Corporation Tax

| <u>Credit Name</u> | <u>Code</u> | <u>Acronym</u> | <u>PIT*</u> | <u>B&C*</u> |
|--|-------------|-----------------|-------------|-----------------|
| Child Adoption | 197 | CHILD ADOPT | X | |
| Community Development Financial Institution Deposits | 209 | CDFI DEPOSIT | X | X |
| Dependent Parent | 173 | DEP PARENT | X | |
| Disabled Access for Eligible Small Businesses | 205 | DSABL ACCESS | X | X |
| Donated Agricultural Products Transportation | 204 | DONATE AGTRN | X | X |
| Employer Child Care Contribution | 190 | CHLDCARE CTR | X | X |
| Employer Child Care Program | 189 | CHLDCARE PRG | X | X |
| Enhanced Oil Recovery | 203 | ENHNC OILREC | X | X |
| Enterprise Zone Employee | 169 | E/Z EMPL | X | |
| Enterprise Zone Hiring & Sales or Use Tax | 176 | E/Z HIRE/USE | X | X |
| Farmworker Housing New Construction/ Rehabilitation | 207 | F/W HS CONST | X | X |
| New Construction/ Rehabilitation Loans | 208 | F/W HS LOAN | | X |
| Joint Custody Head of Household | 170 | JT CSTDY HOH | X | |
| Los Angeles Revitalization Zone Hiring & Sales or Use Tax Credit | 159 | LARZ HRE/USE | X | X |
| Low-Income Housing | 172 | LOW-INC HOUS | X | X |
| Manufacturers' Investment | 199 | MFG INVSTMNT | X | X |
| Manufacturers' Enhancement Area (MEA) Hiring | 211 | MEA HIRE | X | X |
| Nonrefundable Renter's | NONE | NONE | X | |
| Other State Tax | 187 | OTHER STATE | X | |
| Prior Year Alternative Minimum Tax | 188 | PRIOR YR AMT | X | X |
| Prison Inmate Labor | 162 | INMATE LABOR | X | X |
| Program Area Hiring & Sales or Use Tax | 177 | P/A HIRE/USE | X | X |
| Research | 183 | RESEARCH | X | X |
| Rice Straw | 206 | RICE STRAW | X | X |
| Salmon & Steelhead Trout Habitat Restoration | 200 | SALMON/TROUT | X | X |
| Senior Head of Household | 163 | SR HOH | X | |
| Targeted Tax Area (TTA) Hiring & Sales or Use Tax | 210 | TTA HIRE/USE | X | X |

Repealed Credits With Carryover Provisions

| <u>Code</u> | <u>Acronym</u> | <u>PIT*</u> | <u>B&C*</u> |
|--|----------------|--------------|-----------------|
| Agricultural Products | 175 | AGRI PRODUCT | X |
| Commercial Solar Electric System | 196 | COMSLR EL CO | X |
| Commercial Solar Energy Credit | 181 | COM SLR NRG | X |
| Contribution of Computer Software | 202 | CTB COMPSOFT | X |
| Employee Ridesharing: Employee Vanpool Program | 194 | R/S EMPL VN | X |

| | | | | |
|--|-----|--------------|---|---|
| Employer Ridesharing: | | | | |
| Large Employer Program | 191 | R/S LG EMPLR | X | X |
| Small Employer Program | 192 | R/S SM EMPL | X | X |
| Employer Subsidized Public Transit Passes | 193 | R/S TRANSIT | X | X |
| Energy Conservation | 182 | NRG CSRV CO | X | X |
| Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax | 198 | LAMBRA HR/US | X | X |
| Low-Emission Vehicles | 160 | LOW-EMS VHCL | X | X |
| Orphan Drug | 185 | ORPHN DRG CO | X | X |
| Political Contributions | 184 | POLTCL CTB | X | |
| Recycling Equipment | 174 | RCYCL EQUIP | X | X |
| Residential Rental & Farms Sales | 186 | RES RNT/FARM | X | |
| Ridesharing | 171 | R/S CO | X | X |
| Solar Energy | 180 | SLR NRG CO | X | X |
| Solar Pump | 179 | SLR PUMP CO | X | X |
| Technological Property Contribution | 201 | TECHPROP CTB | | X |
| Water Conservation | 178 | WATRCSRV CO | X | |
| Young Infant | 161 | YNG INFNT CO | X | |

Additional Credits

Field numbers 28 and 29 in the scanband on Form 540 are where your clients' additional credit amounts, if any, print. The additional credit amount **must** be preceded by the appropriate three-digit numeric code.

Additional Credit Examples

Dependent Parent Credit (code 173) of \$20 in field number 28. The scanband on Form 540 will look like this:

28 17320

For more information refer to "Additional Credit Lines 28 and 29" on page 7.

Claiming Additional Credits on Personal and Business Entity Tax Forms (Forms 100, 100S, 540, and 540NR)

If your client (personal or business entity taxpayer) claims additional credits, the credit name, code number (the credit acronyms and code numbers on this page should already be part of the tax software you use) and amount should print on the applicable lines of Forms 100, 100S, 540 and 540NR. When a client claims credits on Schedule P (100, 540 or 540NR) and they are listed in more than one section, your tax software should total column (b) of the credits that have the same code numbers and bring the total to the applicable line of the form being filed.

If your client (personal or business entity taxpayer) has any other credits to claim, on Schedule P (100, 540 or 540NR), the tax software should add the amounts from column (b) for those credits and bring the total forward to the applicable line of the form being filed.

FTB's e-file Program

The FTB has made some enhancements to its e-file Program. Beginning in 1999 (tax year 1998 returns), the FTB will offer direct deposit to first-time filers who use e-file. And, if two taxpayers share a bank account, both will be able to receive their refunds by direct deposit.

Also new for 1999, when your clients e-file and owe money, they don't have to write and mail a check. They can choose to electronically pay (e-pay) their income tax. Your clients who choose to e-pay will use form FTB 8453, California Individual Income Tax Declaration for e-file to indicate the amount to be withdrawn from their bank account and the date the withdrawal is to take place. **Reminder:** FTB's e-file Program accepts Form 540NR, Nonresident and Part-Year Resident Income Tax Return, and both refund and balance due returns.

Interested tax professionals must meet the following guidelines in order to participate. The prospective participant must: 1) already be participating in the Internal Revenue Service (IRS) e-file Program; 2) pass a suitability test similar to the IRS; and 3) comply with all the rules and procedures set forth by the FTB.

If you have questions regarding FTB's e-file Program, please call the e-file Help Desk at (916) 845-0353. The e-file staff is available Monday through Friday from 8 a.m. to 5 p.m., PST, except state holidays.

Filing of Business Entity Returns (Forms 100, 100S, 541, 565 and 568)

To help ensure the accurate and timely processing of your clients' business entity returns that require a Schedule K-1 (100S, 541, 565 or 568), use software that produces FTB-approved schedules. Make sure the substitute forms you use meet FTB's requirements. Specifically, Schedule K-1s (565) filed with incomplete information may cause FTB to contact the partnership for more information or to return the Schedule K-1s to the partnership. Either of these circumstances may subject the partnership to penalties.

Reminder, do not file:

- K-1 data on microfiche;
- Federal K-1 schedules;
- Data base print out information; or
- Abbreviated schedules.

California Encourages Tax Preparers to File Magnetic Media Schedule K-1s (565)

For the highest rate of accuracy and rapid processing of your clients' partnership return (Form 565, Partnership Return of Income), file the Schedule K-1s (565) on magnetic media (CD, diskette, cartridge or magnetic tape) and mail in the Form 565. Use software that produces FTB-approved magnetic media formatting.

Schedule K-1s (565) for multiple partnerships can be downloaded and sent to the FTB on the same CD or diskette. It is not necessary to provide a separate CD or diskette for each individual partnership. Use form FTB 3604, Transmittal of Partnership K-1 Information On Magnetic Media to provide the name, FEIN and number of Schedule K-1s that are included for each partnership on the CD or diskette.

Compliance with Partnership Filing Requirements for Magnetic Media Schedule K-1s (565)

Before you submit your clients' magnetic media Schedule K-1s (565), please verify that you have completed the procedures shown below. This will help ensure error-free files and timely processing. **Do not** mail or attach federal or California paper Schedule K-1s (565) to Form 565 when you file your clients' Schedule K-1s (565) via magnetic media.

- Schedule K-1s have been formatted and put on magnetic media for each person identified on Form 565, Side 2, Question J.
- All fields on the Schedule K-1 are formatted and completed as described in FTB Pub. 1062.
- The magnetic media Schedule K-1s reconcile to the Form 565, Schedule K.
- Schedule K-1s formatted on CD or diskette have been pre-tested with the FTB's K-1 TestWare. (**Note:** If the Schedule K-1s have been formatted to a cartridge or magnetic tape, a test file must be submitted first to ensure process compatibility.)
- Provide your clients with the information contained on the Schedule K-1. (**Note:** It is not required to be on a Schedule K-1, it may be in text format.)

Compliance with Partnership Filing Requirements for Paper Schedule K-1s (565)

Before you submit your clients' partnership return (Form 565) and paper Schedule K-1s (565), please verify the following information. This will help ensure accurate and timely processing.

- Schedule K-1s are attached for each person identified on Form 565, Side 2, Question J.
- The Schedule K-1 contains the partner's correct name, address and identifying number.
- Question A through Question I have been answered on Schedule K-1, Side 1.
- The appropriate entity box (Schedule K-1, Question B) is checked for each partner.
- The Schedule K-1s reconcile to the Form 565, Schedule K.
- The partner's percentage (Schedule K-1, Question D) is shown in decimals (i.e., .33.5). Do not use fractions.
- Provide your clients with the information contained on the Schedule K-1. (**Note:** It is not required to be on a Schedule K-1, it may be in text format.)

K-1 TestWare

The FTB provides K-1 TestWare as a tool to help you accurately prepare magnetic media Schedule K-1s (565). The program validates the K-1 files, which enables you to send error-free files when you submit your clients' Schedule K-1s via CD or diskette. The TestWare can also expand your files from a delimited format into the format that is required for FTB's mainframe processing. You may get a copy of the K-1 TestWare diskette from the FTB's Internet website or you may call the e-file Help Desk at (916) 845-0353.

Substitute Schedule K-1s (565) Filing Requirements

As a professional preparer, if you choose to develop your clients' Schedule K-1s (565) (magnetic media or paper format), you must follow the same substitute forms review and approval requirements used by tax software developers, transfer agents and others.

You must complete and return to FTB, form FTB 1096, Agreement to Comply with FTB Pub. 1098, FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, includes the information you need to develop FTB-approved forms. To get a copy of form FTB 1096, call the Substitute Forms Program Administrator at (916) 845-3553.

Note: The paper format of Schedule K-1 (565) may be either a one-sided or two-sided format. The one-sided format requires only those tax data lines that are applicable to the partner to print. The two-sided format will print all data lines. Both formats require approval from the FTB.

Note: Common trust funds and investment clubs use Form 565, Partnership Return of Income, to report their filing information. To help ensure the accurate processing, common trust funds are required to use the principal business activity (PBA) code 525920. Investment clubs are required to use PBA code 523910. For further information, see the instructions for federal Form 1065, U.S. Partnership Return of Income.

FTB's Tax Practitioner Services

The Practitioner Hotline is dedicated to helping CPAs, enrolled agents, attorneys and other tax practitioners with questions on tax law, forms, California reporting requirements and account resolution matters.

The Practitioner's Support Section is staffed year round, Monday through Friday, from 8 a.m. to 5 p.m., and from January 4 through April 15, from 7 a.m. to 8 p.m., PST. The telephone number is (916) 845-7057. If you call, be ready to provide pertinent client information such as social security number, latest notice received or facts relating to the inquiry. Agents can respond to questions on both personal income tax and bank and corporation tax law.

The Electronic Correspondence staff receives incoming correspondence 24 hours a day, seven days a week. The FAX number is (916) 845-6377. When you fax your transmission, be sure your cover sheet includes your business letterhead, FAX number and daytime telephone number. In addition, please submit a copy of your Power of Attorney if not already on file. Generally, your correspondence will be answered in less than 10 working days. To help ensure a quick response, it is recommended that you keep your fax machine turned on at all times.

1998 Scannable Forms 540 and 540A Assembly Guidelines

Staple entire return together in upper left-hand corner

Staple Check or Money Order Here

Staple Form(s) W-2, W-2G and 1099-R Here

California Resident Income Tax Return 1998 540

APR 02-01-97 01-31-98

DO NOT ATTACH LABEL 999-99-0001 JONE ** 999-99-0002 98

JOHN J JONES
MARY M SMITH

Step 1
Name and Address 111 BUTTERFIELD WAY APT 10
SACRAMENTO CA 95827-1111

FOR COMPUTERIZED USE ONLY

| | | | | | | | |
|----|--------|----|------|----|-----|------------|------|
| 01 | 2 | 30 | 0 | 49 | 0 | APR | 0198 |
| 06 | 0 | 31 | 0 | 50 | 0 | 3800 | 0 |
| 09 | 0 | 35 | 0 | 51 | 0 | 3803 | 0 |
| 11 | 2 | 36 | 0 | 52 | 0 | CATMT | 0 |
| 12 | 40000 | 37 | 1606 | 53 | 0 | SCHGI | 0 |
| 14 | 109200 | 38 | 2406 | 54 | 0 | S870A | 0 |
| 16 | 4000 | 39 | 0 | 55 | 0 | S805 S805F | 0 |
| 17 | 79946 | 41 | 0 | 56 | 50 | 987654321 | 0 |
| 18 | 26658 | 43 | 800 | 57 | 0 | | |
| 20 | 2297 | 44 | 0 | 58 | 0 | | |
| 21 | 646 | 45 | 800 | 59 | 50 | | |
| 23 | 0 | 46 | 0 | 60 | 750 | | |
| 28 | 16320 | 47 | 0 | 61 | 0 | | |
| 29 | 17325 | 48 | 0 | 63 | 0 | | |

Step 2
Filing Status 1 ☐ Single 2 ☐ Married filing jointly (even if only one spouse had income) 3 ☐ Married filing separately (even if only one spouse had income) 4 ☐ Head of household (even if only one spouse had income) 5 ☐ Qualifying widow(er) with dependent child (even if only one spouse had income)

Step 3
Exemptions 1 ☐ Yourself 2 ☐ Spouse 3 ☐ Dependent child 4 ☐ Other dependent (enter name and relationship) 5 ☐ Other dependent (enter name and relationship) 6 ☐ Other dependent (enter name and relationship) 7 ☐ Other dependent (enter name and relationship) 8 ☐ Other dependent (enter name and relationship) 9 ☐ Other dependent (enter name and relationship) 10 ☐ Other dependent (enter name and relationship) 11 ☐ Other dependent (enter name and relationship)

Step 4
Taxable Income 12a State wages from your Form(s) W-2, line 17 12b Other income (enter name and amount) 13 Total California taxable income 14 California income tax 15 California income tax credit 16 California income tax refund 17 California income tax overpayment 18 California income tax underpayment 19 California income tax overpayment 20 California income tax underpayment 21 California income tax overpayment 22 California income tax underpayment 23 California income tax overpayment 24 California income tax underpayment

Step 5
Tax 25 Total tax 26 Total refund 27 Total overpayment 28 Total underpayment 29 Total refund 30 Total overpayment 31 Total underpayment 32 Total refund 33 Total overpayment 34 Total underpayment 35 Total refund 36 Total overpayment 37 Total underpayment 38 Total refund 39 Total overpayment 40 Total underpayment 41 Total refund 42 Total overpayment 43 Total underpayment 44 Total refund 45 Total overpayment 46 Total underpayment 47 Total refund 48 Total overpayment 49 Total underpayment 50 Total refund 51 Total overpayment 52 Total underpayment 53 Total refund 54 Total overpayment 55 Total underpayment 56 Total refund 57 Total overpayment 58 Total underpayment 59 Total refund 60 Total overpayment 61 Total underpayment 62 Total refund 63 Total overpayment 64 Total underpayment 65 Total refund 66 Total overpayment 67 Total underpayment 68 Total refund 69 Total overpayment 70 Total underpayment 71 Total refund 72 Total overpayment 73 Total underpayment 74 Total refund 75 Total overpayment 76 Total underpayment 77 Total refund 78 Total overpayment 79 Total underpayment 80 Total refund 81 Total overpayment 82 Total underpayment 83 Total refund 84 Total overpayment 85 Total underpayment 86 Total refund 87 Total overpayment 88 Total underpayment 89 Total refund 90 Total overpayment 91 Total underpayment 92 Total refund 93 Total overpayment 94 Total underpayment 95 Total refund 96 Total overpayment 97 Total underpayment 98 Total refund 99 Total overpayment 100 Total underpayment

Staple entire return together in upper left-hand corner

Staple Check or Money Order Here

Staple Form(s) W-2, W-2G and 1099-R Here

California Resident Income Tax Return 1998 540A

APR 02-01-97 01-31-98

DO NOT ATTACH LABEL 111-11-1111 SMIT 222-22-2222 98

ROBERT J SMITH (DECD 12-10-98)
KELLY J SMITH (DECD 12-11-98)
BUSY DR ROBERT ROBERTS
BORDERTOWN CA 12145-1111

Step 1
Name and Address 1452 1/2 BUSY DR
BORDERTOWN CA 12145-1111

FOR COMPUTERIZED USE ONLY

| | | | | | | | | | |
|------|---|----|-------|----|------|----|---|----|---|
| 01 | 2 | 12 | 55000 | 27 | 0 | 37 | 0 | 54 | 0 |
| 06 | 0 | 13 | 1000 | 29 | 1495 | 47 | 0 | 55 | 0 |
| 09 | 0 | 14 | 49000 | 30 | 0 | 48 | 0 | 56 | 0 |
| 11 | 2 | 15 | 5166 | 31 | 1495 | 49 | 0 | 57 | 0 |
| 5805 | 1 | 19 | 120 | 32 | 0 | 50 | 0 | 58 | 0 |
| | | 23 | 505 | 34 | 0 | 51 | 0 | | |
| | | 24 | 2000 | 35 | 1495 | 52 | 0 | | |
| | | 25 | 0 | 36 | 0 | 53 | 0 | | |

Step 2
Filing Status 1 ☐ Single 2 ☐ Married filing jointly (even if only one spouse had income) 3 ☐ Married filing separately (even if only one spouse had income) 4 ☐ Head of household (even if only one spouse had income) 5 ☐ Qualifying widow(er) with dependent child (even if only one spouse had income)

Step 3
Exemptions 1 ☐ Yourself 2 ☐ Spouse 3 ☐ Dependent child 4 ☐ Other dependent (enter name and relationship) 5 ☐ Other dependent (enter name and relationship) 6 ☐ Other dependent (enter name and relationship) 7 ☐ Other dependent (enter name and relationship) 8 ☐ Other dependent (enter name and relationship) 9 ☐ Other dependent (enter name and relationship) 10 ☐ Other dependent (enter name and relationship) 11 ☐ Other dependent (enter name and relationship)

Step 4
Taxable Income 12a State wages from your Form(s) W-2, line 17 12b Other income (enter name and amount) 13 Total California taxable income 14 California income tax 15 California income tax credit 16 California income tax refund 17 California income tax overpayment 18 California income tax underpayment 19 California income tax overpayment 20 California income tax underpayment 21 California income tax overpayment 22 California income tax underpayment 23 California income tax overpayment 24 California income tax underpayment

Step 5
Tax 25 Total tax 26 Total refund 27 Total overpayment 28 Total underpayment 29 Total refund 30 Total overpayment 31 Total underpayment 32 Total refund 33 Total overpayment 34 Total underpayment 35 Total refund 36 Total overpayment 37 Total underpayment 38 Total refund 39 Total overpayment 40 Total underpayment 41 Total refund 42 Total overpayment 43 Total underpayment 44 Total refund 45 Total overpayment 46 Total underpayment 47 Total refund 48 Total overpayment 49 Total underpayment 50 Total refund 51 Total overpayment 52 Total underpayment 53 Total refund 54 Total overpayment 55 Total underpayment 56 Total refund 57 Total overpayment 58 Total underpayment 59 Total refund 60 Total overpayment 61 Total underpayment 62 Total refund 63 Total overpayment 64 Total underpayment 65 Total refund 66 Total overpayment 67 Total underpayment 68 Total refund 69 Total overpayment 70 Total underpayment 71 Total refund 72 Total overpayment 73 Total underpayment 74 Total refund 75 Total overpayment 76 Total underpayment 77 Total refund 78 Total overpayment 79 Total underpayment 80 Total refund 81 Total overpayment 82 Total underpayment 83 Total refund 84 Total overpayment 85 Total underpayment 86 Total refund 87 Total overpayment 88 Total underpayment 89 Total refund 90 Total overpayment 91 Total underpayment 92 Total refund 93 Total overpayment 94 Total underpayment 95 Total refund 96 Total overpayment 97 Total underpayment 98 Total refund 99 Total overpayment 100 Total underpayment

Tax Practitioner Tips for Computer-Preparing, Assembling, and Mailing Scannable Forms 540 and 540A

| Form | Scannable Form 540 | Scannable Form 540A |
|--|---|---|
| Monetary Amounts (Taxpayer's Tax Data) | Monetary amounts must print in the scanband and must be whole dollars without decimal points or other punctuation. Monetary amounts in the conventional part of the form must include decimal points or a vertical rule (penny line). | Same as scannable Form 540. |
| Additional Credit Lines 28 and 29 | Name or acronym of the credit, code number and amount will print on the applicable lines in the conventional part of the form. See example on page 4. | Additional credits may not be claimed on Form 540A. |
| FTB-Supplied Label | Do not apply the FTB-supplied label to the return. The FTB's IADC and MARCS Systems will capture the information that the software prints on the return. | Same as scannable Form 540. |
| Making Corrections | Do not make corrections on the form. Do not modify the name, address or tax data information. If there is an error, print a new return. | Same as scannable Form 540. |
| Submit Original Returns | Submit original (hardcopy) returns. Do not submit photocopied returns. Return should be single-sided, not two-sided. Returns prepared with overlays are considered originals. | Same as scannable Form 540. |
| Attaching Federal Forms and California Supporting Forms | Form 540 may require attachments. Federal forms and California supporting forms may be stapled to the back of Form 540, Side 2. Note: The FTB accepts federal Form 1040PC as a federal tax return. | Never attach federal tax return. |
| Attaching Wage Statements | Staple "state" copy of Forms W-2, W-2G and 1099-R to the front of Side 1 in the area below the words "Step 4, Taxable Income." | Same as scannable Form 540. |
| Attaching Check or Money Order | Staple check or money order to the front of Side 1 in the area below the words "Step 3, Exemptions." (Place check or money order on top.) | Same as scannable Form 540. |
| Assembling Return | Staple Side 1 to Side 2 and any attachments in the upper left-hand corner. | Same as scannable Form 540. |
| Where to Mail the Return | REFUND OR NO AMOUNT DUE: IMAGE PROCESSING FRANCHISE TAX BOARD PO BOX 942840 SACRAMENTO CA 94240-0009 AMOUNT YOU OWE: FRANCHISE TAX BOARD PO BOX 942867 SACRAMENTO CA 94267-0001 | Same as scannable Form 540. |

Tax Practitioner Tips for Computer-Preparing, Assembling, and Mailing Forms 540EZ, 540NR and 540X

| Form | Form 540EZ | Form 540NR | Form 540X |
|---|---|---|---|
| Monetary Amounts (Taxpayer's Tax Data) | Monetary amounts may include decimal points. | Monetary amounts may include decimal point or a vertical rule (penny line). | Same as Form 540NR. |
| Additional Credits | Additional credits may not be claimed on Form 540EZ. | Name or acronym of the credit, code number and amount will print on the applicable lines of the form. | Not applicable. |
| FTB-Supplied Label | You may apply the FTB-supplied label to the return. However, it may not be necessary because your software product should print this information. | Same as Form 540EZ. | Same as Form 540EZ. |
| Making Corrections | If the name and address printed on the return need correcting, draw a line in ink across the incorrect information and clearly write the correct information. | Same as Form 540EZ. | Same as Form 540EZ. |
| Submit Original Returns | Submit original or photocopied returns. However, the signature(s) of the taxpayer(s) must be original. | Same as Form 540EZ. | Same as Form 540EZ. |
| Attaching Federal Forms and California Supporting Forms | Never attach federal tax return. | Always attach federal tax return. Note: FTB accepts federal Form 1040PC as a federal tax return. | Attach all supporting forms and schedules for items changed. Include federal forms and schedules if you made a change to your federal return. Include name and SSN for taxpayer (and taxpayer's spouse, if any,) on all attachments. Include complete copies of the Federal Audit Report(s) if you are reporting changes made by the IRS. |
| Where to Mail the Return | REFUND OR NO AMOUNT DUE: FRANCHISE TAX BOARD PO BOX 942840 SACRAMENTO CA 94240-0000 AMOUNT YOU OWE: FRANCHISE TAX BOARD PO BOX 942867 SACRAMENTO CA 94267-0001 | Same as Form 540EZ. | Same as Form 540EZ. |